

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 NEA-09 IO-10 ISO-00

COME-00 AGR-05 L-02 CIEP-01 CIAE-00 INR-07 NSAE-00

PA-01 RSC-01 PRS-01 SP-02 TRSE-00 OMB-01 SSO-00

INRE-00 USIE-00 /078 W

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O R 131554Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 7197

INFO AMEMBASSY CANBERRA

AMEMBASSY LA PAZ

AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY BOGOTA

AMEMBASSY SAN JOSE

AMEMBASSY SANTO DOMINGO

AMEMBASSY QUITO

AMEMBASSY SAN SALVADOR

AMEMBASSY ADDIS ABABA

AMEMBASSY ACCRA

AMEMBASSY GUATEMALA

AMEMBASSY CONAKRY

AMEMBASSY PORT AU PRINCE

AMEMBASSY TEGUCIGALPA

AMEMBASSY NEW DELHI

AMEMBASSY JAKARTA

AMEMBASSY KINGSTON

AMEMBASSY NAIROBI

AMEMBASSY MONROVIA

AMEMBASSY MEXICO

AMEMBASSY MANAGUA

AMEMBASSY YAOUNDE

AMEMBASSY BANGUI

AMEMBASSY COTONOU

AMEMBASSY LIBREVILLE

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AMEMBASSY ABIDJAN

AMEMBASSY TANANARIVE
AMEMBASSY LOME
AMEMBASSY PANAMA
AMEMBASSY ASUNCION
AMEMBASSY LIMA
AMEMBASSY LISBON
AMEMBASSY KIGALI
AMEMBASSY FREETOWN
AMEMBASSY DAR ES SALAAM
AMEMBASSY PORT OF SPAIN
AMEMBASSY CARACAS
AMEMBASSY KINSHASA
AMEMBASSY LAGOS
AMCONSUL LUANDA
USMISSION GENEVA

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E.O. 11652: N/A

TAG: OCON, ETRD, UK

SUBJ: COFFEE: WORKING GROUP ON NEGOTIATION OF A
NEW AGREEMENT - JANUARY 6-10

1. SUMMARY. FIRST SERIES OF MEETINGS OF THE
INTERNATIONAL COFFEE (ICO) WORKING
GROUP ON NEGOTIATIONS (WG), JANUARY 6-10, WAS CONDUCTED
IN BUSINESS-LIKE AND NON-POLEMIC MANNER, WITH WEEK'S
WORK DEVOTED TO WORK ORGANIZATION FOR THE PRE-NEGOTIA-
TIONS AHEAD, IN DEPTH DISCUSSION OF PROPOSALS FOR A NEW
INTERNATIONAL COFFEE AGREEMENT (ICA) SO FAR SUBMITTED,
AND CONSULTATIONS. PORTUGUESE PROPOSAL FOR A LARGE-
SCALE STOCK RETENTION SCHEME ATTRACTED MUCH INTEREST.
CONSUMER CAUCUS REVEALED UNANIMOUS OPPOSITION TO
CONSIDERATION OF "AUTOMATIC INDEXATION" IN NEW
AGREEMENT. END SUMMARY.

2. WORKING GROUP ON NEGOTIATION OF A NEW ICA MET
AT ICO HEADQUARTERS, LONDON, JANUARY 6
STEPS FOR NEGOTIATION OF A NEW ICA. WG RECEIVED FORMAL
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PROPOSALS FROM BRAZIL, THE NETHERLANDS, SWEDEN,
UGANDA, PORTUGAL, ZAIRE, AND MADAGASCAR. PROPOSALS
HAD EARLIER BEEN RECEIVED FROM COLOMBIA AND OAMCAF
WHILE MEXICO AND FRANCE INDICATED THEY WILL FORMALLY
SUBMIT THEIR IDEAS BEFORE OR AT MEETINGS SCHEDULED TO
BEGIN JANUARY 20. PURPOSE OF INITIAL MEETING WAS
BASICALLY ORGANIZATIONAL: TO DETERMINE NUMBER, SIZE
AND TERMS OF REFERENCE FOR SUB-GROUPS TO STUDY VARIOUS

RENEGOTIATION ISSUES. HOWEVER, MEETING ALSO PROVIDED
OPPORTUNITY FOR USEFUL CONSULTATIONS AMONG CONSUMING
COUNTRY MEMBERS AND FOR PRELIMINARY EXCHANGE OF VIEWS
BETWEEN PRODUCERS AND CONSUMERS.

3. ON ORGANIZATIONAL MATTERS, WG DECIDED TO SET UP
TWO SUB-GROUPS, ONE TO CONSIDER THE SUPPLY/DEMAND
SITUATION AND ANOTHER TO CONSIDER PRICE POLICY.
BOTH SUB-GROUPS WILL BE COMPOSED OF THE FULL MEMBERSHIP
OF THE WG (THE EXECUTIVE BOARD PLUS THE CHAIRMAN
THE COFFEE COUNCIL AND THE EXECUTIVE BOARD) PLUS
SWEDEN, THE NETHERLANDS, PORTUGAL AND COSTA RICA
SNT
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THE TERMS OF REFERENCE ADOPTED WERE THE GENERAL INSTRUCTIONS CONTAINED IN THE COFFEE COUNCIL RESOLUTION WHICH SET UP THE WG. IT WAS AGREED THE SUB-GROUPS WOULD SET UP SMALLER STUDY AND DRAFTING GROUPS AS REQUIRED. THE WG LEFT ITSELF AND THE SUB-GROUPS A MAXIMUM DEGREE OF FLEXIBILITY TO DETERMINE FUTURE WORK PROGRAMS, BUT DID AGREE TO ATTEMPT TO ADHERE TO THE EARLIER SCHEDULE OF CONCLUDING DRAFT PROPOSALS FOR A NEW AGREEMENT BY APRIL, WITH A FULL NEGOTIATING CONFERENCE SCHEDULED FOR LATE JUNE AND EARLY JULY.

4. WITH THE EXCEPTION OF THE PORTUGUESE DRAFT, ALL

PROPOSALS SUBMITTED WERE BASICALLY MODIFICATIONS OF THE 1962 AND 1968 AGREEMENTS AND INCLUDED PROVISIONS FOR MARKET DISTRIBUTION AMONG PRODUCERS AND PRICE DEFENSE MECHANISMS. MOST PRODUCER COUNTRY PROPOSALS CONTAINED REFERENCES TO THE NEED FOR AUTOMATIC PROVISIONS TO MAINTAIN REAL VALUE OF COFFEE EXPORTS. IN EXPLAINING THEIR PAPERS, THE NETHERLANDS AND LIMITED OFFICIAL USE

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SWEDISH REPS MADE CLEAR THEY WOULD NOT REPEAT NOT ACCEPT ANY FORM OF AUTOMATIC INDEXATION" ALTHOUGH THEY WOULD CONSIDER PERIODIC REVIEWS OF PRICE OBJECTIVES.

5. PORTUGUESE PROPOSAL FOCUSED ON CREATION OF A LARGE-SCALE COFFEE RETENTION STOCKPILE UNDER ICO CONTROL (BUT STOCKS HELD IN PRODUCER COUNTRY) WHICH WOULD HOLD COFFEE OFF MARKET WHEN PRICE BELOW TARGET LEVEL AND SELL WHEN PRICE ABOVE. PORTUGUESE SYSTEM WOULD NOT USE EXPORT QUOTAS OR ATTEMPT TO DETERMINE MARKET SHARES IN ADVANCE. RATHER, EXPORT STAMPS WOULD BE ISSUED TO PRODUCERS UPON RECEIPT OF DEPOSITS IN RETENTION STOCK IN A RATIO OF FOUR BAGS WORTH OF EXPORT STAMPS FOR EACH BAG DEPOSITED IN THE ICO STOCKPILE. ALL SALES TO NON-MEMBER MARKETS WOULD BE FROM THE STOCKPILE AT PRICE SLIGHTLY ABOVE THOSE PAID BY CONSUMING MEMBERS. BECAUSE OF ITS NOVELTY, A FULL DAY WAS SPENT QUESTIONING AND DISCUSSING THE PORTUGUESE APPROACH.

6. IN TWO CONSUMER CAUCUSES, MOST DELEGATIONS INDICATED THEY PREFERRED A NEW ICA MORE OR LESS ALONG TRADITIONAL LINES, WITH PRODUCER-CONSUMER PARTICIPATION. THERE WAS UNANIMOUS OPPOSITION TO CONSIDERATION OF 'AUTOMATIC INDEXATION' IN A NEW ICA. THE FRG DEL STATED IT WOULD PREFER A STANDBY AGREEMENT WHICH WOULD BECOME OPERATIVE ONLY WHEN SOME MINIMUM PRICE WERE APPROACHED, WITH MARKET MANAGEMENT LEFT ENTIRELY UP TO PRODUCERS IN THE MEANTIME. REACTION WAS, HOWEVER, THAT PROPOSING STANDBY SCHEME AT THIS TIME WOULD BE BAD TACTICS AND IMPLICIT ENCOURAGEMENT OF PRODUCER CARTELIZATION WOULD BE RISKY.

8. IN SUM, THE FIRST WEEK'S WORK OF THE WG--AND PARTICULARLY THE INITIAL DISCUSSIONS OF THE VARIOUS PRODUCER AND CONSUMER COUNTRY PROPOSALS--WAS BUSINESS-LIKE AND WITH RARE EXCEPTION, NON-POLEMIC. CONSUMERS MADE CLEAR THEIR OPPOSITION TO INDEXATION AND, FOR MOST PART, PRODUCERS SEEM CONTENT TO LET PRINCIPLE RIDE AND GET ON WITH THE BUSINESS OF DISCUSSING THE NUTS AND BOLTS OF A NEW AGREEMENT.

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9. MEETING MADE LITTLE SUBSTANTIVE PROGRESS TOWARD
A NEW AGREEMENT, BUT THAT WAS NOT ITS PURPOSE. IT
RESOLVED PROCEDURAL MATTERS IT WAS CHARGED WITH
WITH DISPATCH, AND PROVIDED THE OPPORTUNITY FOR A
HEALTHY EXCHANGE OF VIEWS AMONG PRODUCERS AND CONSUMERS.
IT WAS CONDUCTED IN A CONSTRUCTIVE ATMOSPHERE. NEXT
MEETING SCHEDULED FOR JANUARY 20.

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